


# Memorandum



**Date:** April 7, 2014  
**To:** Honorable Chairwoman Rebeca Sosa  
and Members, Board of County Commissioners  
**From:** *for* Carlos A. Gimenez   
Mayor  
**Subject:** Seaport Failure to Meet Rate Covenant

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As a result of recent audit adjustment to Seaport revenues by the County's external auditor, the Seaport did not have sufficient Revenues to meet the rate covenants as required by County Ordinance No. 88-66 (Master Ordinance) for FY 2013. This adjustment was due to a credit due under the cruise line incentive agreements. Section 501 (c) Rate Covenant of the Master Ordinance requires that revenues will at all times be sufficient in each fiscal year to provide an amount at least equal to the sum of:

1. 100 percent of operating expenses (Seaport operations) as computed from the annual budget;
2. 125 percent of maximum principal and interest requirements on all Revenue Bonds for any future fiscal year plus 110 percent of the maximum principal and interest requirements on all Seaport general obligations bonds for any future fiscal year;
3. 100 percent of the reserve account deposit requirement for the current fiscal year; and
4. 100 percent of the amount established in the annual budget to be deposited to the reserve maintenance fund in the current fiscal year.

For FY 2013, revenues minus operating expenses (Net Revenues) of approximately \$45.3 million were needed to meet the rate covenant; however, due to the adjustment to revenues, there was a \$1.6 million deficit in Net Revenues that was needed to meet the rate covenant.

Section 501 of the Master Ordinance provides that if the Seaport fails to meet the requirements of the rate covenant, the Seaport will employ an independent consulting engineer to make recommendations as to rates, fees, and charges and any changes in methods of the operation of the Seaport Department, which shall result in an increase of Net Revenues sufficient to meet the requirements of the Master Ordinance. The Master Ordinance further provides that if the Seaport complies with the recommendations of the consulting engineer it can remedy the covenant violation without causing an event of default.

The Seaport has engaged a Consulting Engineer to make such recommendations and in its report of April 1, 2014, the Consulting Engineer concluded that it is anticipated that the County will meet the rate covenant in FY 2014 and FY 2015 based on recent actions taken by the County that will increase revenues in FY 2014 and in the future. Revenues have been sufficient at all times to meet operating expenses, reserve requirements, and principal and interest requirements of all outstanding Bonds. No Event of Default has occurred under the Master Ordinance for FY2013.

Attached is the Secondary Disclosure Notice as filed with the Security Exchange Commission's Electronic Municipal Market Access (EMMA) System, Bond Counsel's comfort letter, the Consulting Engineers Recommendation letter dated April 1, 2014, and a Moody's Rating Agency report as of April 4, 2014.

If you have any questions or concerns, please feel free to contact me directly.

c: Robert A. Cuevas, Jr., County Attorney  
Office of the Mayor Senior Staff  
Blanca Padron, Deputy Director, Finance Department  
Frank Hinton, Director, Bond Administration Division, Finance Department

**NOTICE TO INVESTORS**  
**MIAMI-DADE COUNTY, FLORIDA**  
**SEAPORT REVENUE AND GENERAL OBLIGATION BONDS**  
**RATE COVENANT COMPLIANCE**

This Notice to Investors relates to the following bonds issued by Miami-Dade County (the "County"):

*Miami-Dade County, Florida Seaport Revenue Bonds, Series 2013A (Cusip Numbers:*

59335KAA5;	59335KAB3;	59335KAC1;	59335KAD9;	59335KAE7;	59335KAF4;	59335KAG2;
59335KAH0;	59335KAJ6;	59335KAK3;	59335KAL1;	59335KAM9;	59335KAN7;	59335KAP2;
59335KAQ0;	59335KAR8;	59335KAS6;	59335KAT4;	59335KAU1)		

*Miami-Dade County, Florida Seaport Revenue Bonds, Series 2013B (AMT) (Cusip Numbers:*

59335KAV9;	59335KAW7;	59335KAX5;	59335KAY3;	59335KAZ0;	59335KBA4;	59335KBB2;
59335KBC0;	59335KBD8;	59335KBE6;	59335KBF3;	59335KBG1;	59335KBH9;	59335KBJ5;
59335KBK2;	59335KBL0;	59335KBM8;	59335KBN6;	59335KBP1)		

*Miami-Dade County, Florida Seaport Revenue Refunding Bonds, Series 2013C (Cusip Numbers:*

59335KBQ9; 59335KBR7)

*Miami-Dade County, Florida Seaport Revenue Refunding Bonds, Series 2013D (AMT) (Cusip Numbers:*

59335KBS5;	59335KBT3;	59335KBU0;	59335KBV8;	59335KBW6;	59335KBX4;	59335KBY2;
59335KBZ9;	59335KCA3;	59335KCB1;	59335KCC9;	59335KCD7;	59335KCE5)	

*Miami-Dade County, Florida Seaport General Obligation Refunding Bonds, Series 2011C (Cusip Numbers:*

59333FMT4;	59333FMU1;	59333FMV9;	59333FMW7;	59333FMX5;	59333FMY3;	59333FMZ0;
59333FNA4;	59333FNB2;	59333FNC0;	59333FND8;	59333FNE6;	59333FNF3;	59333FNG1;
59333FNH9;	59333FNJ5)					

**General.** Miami-Dade County, Florida ("County") owns and operates a seaport comprised of a 522-acre island facility adjacent to downtown Miami (the "Seaport"). The County's Seaport Department is responsible for the operations and maintenance of the Seaport. The County has issued the seaport revenue bonds and seaport general obligation bonds listed above (collectively, the "Bonds") pursuant to a master bond ordinance ("Master Ordinance") to fund capital projects located on the Seaport. The Bonds are secured by a pledge of Net Revenues of the Seaport Department. Net Revenues are defined in the Master Ordinance to be the excess of Revenues of the Seaport Department over Operating Expenses.

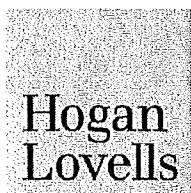
**Fiscal Year 2013 Rate Covenant.** Based on a recent adjustment to Revenues required by the County's outside auditor in the course of performing its annual audit for the fiscal year ended September 30, 2013 ("Fiscal Year 2013"), due to a credit due under the cruise line incentive agreements, the Seaport did not have sufficient Revenues to meet the rate covenant in the Master Ordinance for Fiscal Year 2013. The rate covenant stipulates that in each Fiscal Year, Revenues must be equal to or greater than the sum of: (i) 100% of the Operating Expenses (Seaport Operations) as computed from the Annual Budget; (ii) 125% of maximum Principal and Interest Requirements on all Revenue Bonds for any future Fiscal Year plus 110% of the maximum Principal and Interest Requirements on all Seaport General Obligation Bonds for any future Fiscal Year; (iii) 100% of the Reserve Account Deposit Requirement for the current Fiscal Year; and (iv) 100% of the amount established in the Annual Budget to be deposited to the Reserve Maintenance Fund in the current Fiscal Year. Net Revenues of approximately \$45.3 million were required to meet the rate covenant for Fiscal Year 2013; however, the accounting adjustment to Revenues resulted in a shortfall of approximately \$1.6 million in Net Revenues required to meet the rate covenant.

In accordance with the provisions of the Master Ordinance, upon failure to meet the debt service coverage requirements of the Master Ordinance, the Seaport Department must employ an independent consulting engineer who shall make recommendations as to a revision of the rates, fees, and charges and any changes in methods of operations of the Seaport Department, which shall result in an increase of Net Revenues sufficient to meet the requirements of the Master Ordinance. By implementing the changes recommended by such independent consulting engineer, the Seaport Department can remedy this covenant violation without causing an event of default under the Master Ordinance. In response to the determination by the County's outside auditor, the County engaged a Consulting Engineer to make such recommendations. In its report dated April 1, 2014, the Consulting Engineer concluded that it is anticipated that the County will meet the rate covenant in Fiscal Year 2014 and Fiscal Year 2015 based on recent actions taken by the County that will increase Revenues in Fiscal Year 2014 and in the future. Revenues have been sufficient at all times to meet Operating Expenses, reserve requirements, and Principal and Interest Requirements of all outstanding Bonds. No Event of Default has occurred under the Master Ordinance.

April 3, 2014

MIAMI-DADE COUNTY, FLORIDA

By: Edward Marquez  
Deputy Mayor/Finance Director



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April 1, 2014

**Privileged And Confidential  
By Electronic Mail**

Frank Hinton  
Director of Bond Administration  
Miami-Dade County Finance Department  
111 N.W. 1st Street, Suite 2550  
Miami, Florida 33128-1929

**Re: Seaport Master Bond Ordinance**

Dear Mr. Hinton:

You have told us that questions have arisen regarding the consequences under the Seaport master bond ordinance (the "Master Ordinance") of certain recent adjustments to the Seaport's financial statements from the auditors that apparently will result in a failure to meet the rate covenant in the Master Ordinance for the 2013 fiscal year. Below is a summary of our analysis of the relevant provisions of the Master Ordinance.

Section 501 of the Master Ordinance generally provides that if for any Fiscal Year the County does not meet the requirements of the rate covenant described in paragraph (c) of that section, before November 15 of the following Fiscal Year the County will request the Consulting Engineers to make their recommendations as to revising rates and charges and other changes in methods of operation. Section 501 further provides that the Consulting Engineers shall submit their recommendations to the County within 60 days of the request, that the County covenants to take steps necessary to comply with such recommendations within 60 days of receipt of the recommendations, and that within 30 days of the County complying with such recommendations the Consulting Engineers shall certify to the County that the actions taken by the County will enable it to comply with the rate covenant during the period starting with the date the recommendations become effective and ending on the last day of the Fiscal Year in which such certification is being delivered plus the following Fiscal Year.

Section 501 further provides as follows:

Anything in this Ordinance to the contrary notwithstanding, if the County shall comply with all recommendations of the Consulting Engineers in respect of rates, fees, rentals and other charges, the failure to meet the requirements of clause (c) above in any Fiscal Year will not constitute an event of default under the provisions of Section

802(h) of this Ordinance if Net Revenues are sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds payable in such Fiscal Year.

Sections 802(a) through (g) of the Master Ordinance enumerate occurrences that will result in an "event of default," (none of which include a failure to meet the requirements of Section 501(c)). Section 802(h) provides that an event of default shall occur if:

the County shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds, in this Ordinance or in any Series Resolution on the part of the County to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the County by the registered owners of not less than ten per centum (10%) in aggregate principal amount of the Bonds then Outstanding or by the Issuer of a Credit Facility or Liquidity Facility securing Bonds hereunder; provided, however, that if the default specified in this clause (h) cannot be remedied within thirty (30) days, it shall not constitute an event of default if the County shall begin to remedy such default within such thirty (30) day period.

Our understanding is that in March of 2014 the County became aware of certain adjustments to the Seaport's financial statements being required by its auditors that would cause the County to fail to comply with the rate covenant in Section 501(c) for Fiscal Year 2013. Within 30 days of learning of these adjustments, the County requested the Consulting Engineers to make recommendations pursuant to Section 501. On March 31, 2014, the County received a letter from the Consulting Engineers finding that remedies had already been enacted by the County to generate sufficient revenues to meet the rate covenants in the Master Ordinance for the 2014 and 2015 fiscal years. Thus, the County (i) failed to meet the rate covenant in Section 501(c) for Fiscal Year 2013, and (ii) failed to request recommendations from the Consulting Engineers before November 15, 2013 as required in Section 501. Section 802(h) provides, however, that these "defaults" do not result in an "event of default" under the Master Ordinance unless at least 10%, in the aggregate, of holders of the Bonds provide written notice to the County specifying the defaults and requiring that they be remedied. Our understanding is that no such notice has been provided to the County relating to these matters.

Section 802(h) further provides that if the notice from holders of the Bonds described above is provided to the County, there is no "event of default" under the Master Ordinance unless the default continues for 30 days after such written notice. Moreover, Section 802(h) provides that if the default cannot be remedied within 30 days, it shall not constitute an "event of default" under the Master Ordinance if the County shall begin to remedy such default within such 30 day period. Our understanding is that the County began to take the steps necessary to remedy the defaults under Section 501 as described above and on March 31, 2014 received the certification from the Consulting Engineers required under Section 501 necessary to cure the defaults under the rate covenants for the 2013 fiscal year, and therefore a future receipt of notice from holders of at least 10% of the Bonds with respect to such defaults should not trigger an "event of default" under the Master Ordinance because the County has already completed the process of remedying the defaults.

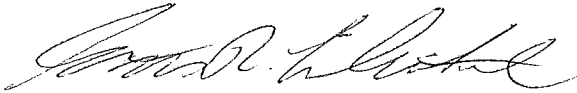
Frank Hinton  
Director of Bond Administration

- 3 -

April 1, 2014

We understand that you may choose to share this letter with the County's auditors. We are providing this letter to the County as its counsel, and any sharing of this letter with anyone else would not represent advice by us to such persons and would not create an attorney-client relationship between us and such persons.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott R. Lilienthal", written in a cursive style.

Scott R. Lilienthal

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Juan Kuryla  
Seaport Director  
PortMiami  
1015 North America Way, #210  
Miami, FL 31332

Subject: Consulting Engineer's Fiscal Year 2013 Revenue Review and Findings

Dear Mr. Marquez and Mr. Kuryla:

On March 14, 2014, the County contacted the Consulting Engineer informing them that total net revenues for Fiscal 2013 reported in the Seaport Department's (PortMiami's) draft year-end financial statements will be approximately \$1.6 million under the required amounts to meet one of the rate covenants defined in Miami-Dade County Ordinance 88-66.

The Consulting Engineer reviewed PortMiami materials and found PortMiami was in compliance with Ordinance 88-66 at the time when its original budget was approved as well as was in compliance through February 20, 2014 when a preliminary draft of the financial statements was completed. Subsequently, on March 6, 2014, when reconciliations were performed, it yielded that PortMiami did not meet one of the required rate covenants.

PortMiami, per Ordinance 88-66 Section 501. (c), requested the Consulting Engineer to make recommendations as to a revision rates, fees, rentals and other charges so that:

"Section 501. Rate Covenants..."

- c) Revenues will at all times be sufficient in each Fiscal Year to provide an amount at least equal to the sum of

Imagine the result

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April 1, 2014

Contact:  
John Mastracchio

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- i. One hundred per centum (100%) of the Operating Expenses (Seaport Operations) as computed from the Annual Budget,
- ii. One hundred twenty five per centum (125%) of the maximum Principal and Interest Requirements on all Revenue Bonds for any future Fiscal Year plus one hundred ten per centum (110%) of the maximum Principal and Interest Requirements on General Obligation Bonds for any future Fiscal Year,
- iii. One hundred per centum (100%) of the Reserve Account Deposit Requirements for the current Fiscal Year, and
- iv. One hundred per centum (100%) of the amount established in the Annual Budget to be deposited to the Reserve Maintenance Fund in the current Fiscal Year."

The Consulting Engineer has reviewed the Ordinance and data provided by PortMiami, including current contractual terms and conditions with Cruise and Terminal Operators, which document current increases in rates, fees, rentals and other charges. PortMiami performed the additional bonds test defined in Section 207 looking back at "any twelve consecutive months in the preceding 18 months". Under those conditions, PortMiami meets the test. Additionally, based on information provided by PortMiami, the Consulting Engineer finds remedies had already been enacted by PortMiami prior to March 6, 2014 to generate sufficient revenues in FY2014 and FY2015 to meet the requirements of Ordinance 88-66 with debt service for the Series 2013 bonds included. These remedies include:

1. Approving a resolution R520-13 on July 2, 2013 authorizing the execution of the cruise terminal usage and development agreement between Miami-Dade County and Bimini Superfast Operations, LLC, and subsequently executing such agreement. The terms of this agreement are anticipated to increase revenues to PortMiami by \$6.3 million over Fiscal 2013 revenues from contracted obligations for a full year of Bimini Fast Ferry Service.
2. Executing the POMTOC operating agreement on December 17, 2013, which is anticipated to increase Seaport rental revenues by approximately \$1 million in FY2014.
3. Negotiating berthing schedules with cruise lines that are anticipated to result in increased cruise ship passenger counts by approximately 800,000 in FY2014 over FY2013, and approximately 700,000 in FY2015 over FY2013. With rate escalation, wharfage revenue is budgeted to increase by approximately \$4.7 million in FY2014.

PortMiami's FY2014 revenues, inclusive of these remedies, are budgeted approximately \$11.8 million higher than FY2013 and Net Revenues are budgeted \$8



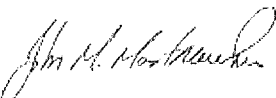
million higher. Based on the agreements that comprise the remedy, which extend through FY2015, and the berthing schedules for FY2015, the net revenues are also anticipated to generate sufficient revenues in FY2015 to meet the requirements of Ordinance 88-66 with debt service for the Series 2013 bonds included and assuming no extraordinary expense increases in FY2015.

Please note that ARCADIS is (a) not recommending any action related to municipal financial products or the issuance of municipal securities; (b) and is not acting as a municipal advisor and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act with respect to the information and material contained in this letter. Recipients should discuss any information and material contained in this communication with any and all internal or external registered municipal advisors and experts that the PortMiami deems appropriate before acting on this information and material.

Please do not hesitate to contact us should you have any questions or comments regarding the findings presented above, or require any additional information.

Sincerely,

ARCADIS U.S., Inc.



John Mastracchio, CFA  
Associate Vice President

Copies:

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M. Abreu (PortMiami)  
J. Lopez (PortMiami)  
R. Elliot (PortMiami)  
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# MOODY'S

## INVESTORS SERVICE

### ISSUER COMMENT

## Miami-Dade County's Material Events Notice Related to its Seaport Revenue Bonds Has No Immediate Rating Impact

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Moody's Investors Service expects no immediate negative credit impact on the Seaport Revenue Bonds of the Miami-Dade County following the filing of a material events notice related to the violation of the port's rate covenants on April 3, 2014.

The rate covenant violation was uncovered by McGladrey LLP, the outside auditors of the port's FY 2013 financial statements, when they determined that the port's entry for cruise line incentives was booked incorrectly. The resulting adjustment caused net revenues to fall below the \$45.3 million required by the port's master bond ordinance rate covenant by approximately \$1.6 million. The rate covenant requires that revenues must be equal to or greater than the sum of: (i) 100% of the operating expenses based on the annual budget; (ii) 125% MADS for seaport revenue bonds plus 110% MADS on seaport general obligation bonds; (iii) 100% of the reserve account deposit requirement for the current fiscal year; and (iv) 100% of the required reserve maintenance fund in the current fiscal year's annual budget. As required by the bond ordinance in this event, the county hired Arcadis US, an independent consulting engineer, to make recommendations to the port on how to meet the covenants. In a letter dated April 1, Arcadis stated they expect the port to generate sufficient revenues in FY2014 and FY2015 to meet the requirements of the bond ordinance based on agreements signed after the close of FY2013 and the expected cruise berthing schedule for the next two years. Arcadis did not recommend any additional specific actions.

Though the port did not meet its rate covenant, FY 2013 net revenues were sufficient to meet operating expenses, reserve requirements, and debt service requirements of all outstanding Bonds. No event of default has occurred under the ordinance, and the Material Events Notice in itself has no immediate ratings impact. Prior to this recent disclosure, Moody's had projected some cushion over the minimum net revenue needed to make its rate covenant based on the port's expected 2013 results last August as part of our last review of the credit. This outcome is indicative of tighter than expected results.

The last rating action on the county's seaport revenue bonds was on August 27, 2013, when Moody's downgraded the rating to A3 from A2 in connection with the issuance of approximately \$375 million of new money for port improvement projects. The downgrade reflected our concerns around the substantial increase in leverage, and the transformation of the port's debt profile and much tighter financial margins resulting from the offering. The port is expected issue an additional \$400 million of debt through 2017 and the bulk is expected this year. We affirmed a stable outlook concurrent with the downgrade, based on the port's strong competitive position as the world's largest passenger cruise port and its key economic importance to trade for south Florida. Its location near the Caribbean Sea and the Panama Canal, access to several modes of transportation, and extensive and growing infrastructure are also key stabilizing features.

The general credit strength of Miami-Dade County (general obligation bonds rated Aa2 negative) is unaffected by this material event on the seaport revenue bonds. The county's sizable economic base is diversified by the tourism, trade, banking, health care, construction, business services and manufacturing industries, with the airport and seaport remaining major economic engines. County financial operations had stabilized since fiscal 2010, with officials taking appropriate actions to reduce costs, but nonetheless they remain challenged by rising service costs.

PortMiami is a landlord port located in Biscayne Bay, on an island a half-mile from the City of Miami (A2 Negative). The port is the largest multi-day homeport for cruise vessels in the world, currently with service from 11 cruise lines as well as same-day ferry service to the Bahamas. In addition to cruise lines, the port has 16 cargo shipping lines that call on more than 100 countries and 250 ports across the world, serving markets in Asia, the Americas, the Caribbean, Europe, and the Middle East. PortMiami is operated as an enterprise of Miami-Dade County, and has benefited from its implicit and direct support.

For research publications that reference Credit Ratings, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated Credit Rating Action information and rating history.

Report Number: 167223

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Production Associate  
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